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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 002388

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STATE PASS USTR FOR AUSTR CUTLER AND MICHAEL BEEMAN

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TAGS: [EINV](#) [ETRD](#) [PREL](#) [CH](#) [KS](#) [JA](#)
SUBJECT: JAPANESE OFFICIALS: JAPAN-CHINA-SOUTH KOREA
INVESTMENT AGREEMENT LIKELY WITHIN THE YEAR

REF: A. TOKYO 2343
[1](#)B. TOKYO 2329

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Classified By: Ambassador James P. Zumwalt for Reasons 1.4 (b),(d)

[1](#)1. (C) SUMMARY: Japanese government and industry officials are optimistic about prospects for further economic integration among Japan, China, and South Korea following Prime Minister Yukio Hatoyama's October 10 statement that he hopes the three countries conclude an investment agreement by early 2010. At an inaugural Business Summit held in parallel with the Japan-China-South Korea Trilateral Summit in Beijing, leading Japanese, Korean and Chinese industry organizations called for promotion of a Free Trade Agreement (FTA) and also pledged deeper cooperation in response to the financial crisis, as well as on energy conservation and the environment. However, Japanese Ministry of Economy, Trade and Industry (METI) officials note negotiations for an FTA remain in the exploratory phase. END SUMMARY.

HATOYAMA: INVESTMENT AGREEMENT WITHIN THE YEAR

[1](#)2. (U) A joint statement following the October 10 Second Japan-China-South Korea Trilateral Summit Meeting in Beijing called for higher-level cooperation among the three economies in such areas as business, trade, finance and investment. Noting the three economies constitute 70 percent of Asia's gross domestic product, Prime Minister Hatoyama called for deeper economic cooperation and progress toward an FTA during a joint press conference following the Trilateral Summit in Beijing. Hatoyama said differences among the three economies necessitate cooperation rather than independent action to attain economic recovery, and, noting the serious unemployment situation in Japan and Korea, stated "we concurred that under such circumstances exit strategies remained premature." He added that the conclusion of a trilateral investment agreement as soon as possible within the next year will deepen economic cooperation and raise discussion of an FTA from the private sector to the political level. Hatoyama also urged efforts to increase domestic demand in each country as well as further cooperation in science and technology.

METI: ON THE HOMESTRETCH TOWARD AN INVESTMENT AGREEMENT

[1](#)3. (C) Kotaro Tanaka of METI's Trade Policy Bureau Northeast Asia Division described progress toward an investment

agreement as "on the homestretch". Tanaka said negotiators from the three countries have met eight times since 2007, with the last meeting in mid-September 2009. Forthcoming negotiations are not yet scheduled, but the parties aim to meet in Beijing in late 2009, and it is realistic to assume they will reach an agreement at that time or in early 2010, Tanaka claimed. However, an investment agreement among the three countries would not be so far-reaching as to constitute a "pre-FTA" or pre-establishment of national treatment, Tanaka said, noting that discussions of an FTA are still very preliminary.

14. (C) Commenting on outstanding issues, Tanaka said Japan seeks to include language on transparency, intellectual property rights, and prohibition of performance requirements in any investment agreement. Meanwhile, Tanaka said China is pressing for statements of principle, for example that investment contributes to the economic development of the host country and that inward investment must comply with domestic host country law. China has also called for streamlining immigration procedures. Tanaka characterized Korea's position as wanting more than just a bilateral investment agreement with China, in particular with respect to performance requirements.

BUSINESS COMMUNITY CALL FOR FREE TRADE

15. (U) Delegations representing the Japan Federation of Business (Keidanren), the China Council for the Promotion of International Trade, and the Federation of Korean Industries held an inaugural Business Summit coinciding with the Trilateral Summit intended to foster closer private sector business relationships. The groups issued a joint statement

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following the summit calling for trilateral economic cooperation to bring trade back to pre-financial crisis levels and condemning protectionism in the region. The statement also urged greater cooperation on energy and the environment, although it did not provide details. A Keidanren staff member told embassies the business groups easily reached consensus on the joint statement. Keidanren President Fujio Mitarai praised the summit's outcome at an October 13 press conference and repeated the call for progress toward a trilateral FTA.

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